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FM AMCONSUL KARACHI  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0619  
INFO RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 0088  
RUEHBUL/AMEMBASSY KABUL PRIORITY 0183  
RUEHLO/AMEMBASSY LONDON PRIORITY 0245  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 1765  
RUEHLH/AMCONSUL LAHORE PRIORITY 2577  
RUEHPW/AMCONSUL PESHAWAR PRIORITY 4460  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUCPDOC/DEPARTMENT OF COMMERCE WASHDC PRIORITY  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY  
RUEKJCS/SECDEF WASHINGTON DC PRIORITY  
RHMFSS/CDR USCENTCOM MACDILL AFB FL PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 KARACHI 000512

SIPDIS

E.O. 12958: DECL: 09/05/5018

TAGS: SOCI ECON EFIN PK

SUBJECT: KARACHI - MARKET MAY DROP, GOP REFORMS HELPING BUT  
SAUDI OIL PACKAGE UNCERTAIN

REF: A. A: KARACHI 501

1B. B: ISLAMABAD 2867

1C. C: KARACHI 2891

Classified By: CLASSIFIED BY CONSUL GENERAL KAY ANSKE, REASONS 1.4 (b)  
AND (d).

11. (C) SUMMARY: At an August 30 dinner, Karachi  
businessman and Honorary Consul for Yemen Ikhtiar Baig, a  
confidant of GOP Finance Minister Naveed Qamar, spoke to the  
Consul General (CG) about the proposed USD 6 billion Saudi  
Arabia credit for deferred oil payments. A leading stock  
broker and the Managing Director of the Karachi Stock  
Exchange (KSE) both said they expect a 1000-point downward  
market correction once the price floor on stocks is removed,  
which could be as early as September 9. Interlocutors tell  
us that GOP officials are planning to revitalize Pakistan's  
privatization program by selling off state owned oil and gas  
concerns (reftel B) and also may begin selling short term  
debentures to raise funds. Most economic reforms are  
expected to be announced after the September 6 presidential  
elections. End summary.

Saudi Credit for Oil

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12. (C) On August 30, Karachi businessman and Honorary  
Consul for Yemen Ikhtiar Baig spoke to the Consul General  
(CG) about the possible USD 6 billion Saudi Arabia credit for  
deferred oil payments. Baig, a confidant of federal Finance  
Minister Naveed Qamar, claimed the GOP is negotiating similar  
agreements with the U.A.E. and Qatar.

Market Correction Forecast

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13. (C) Karachi Stock Exchange (KSE) Managing Director Adnan  
Afriди told EconOff on September 2 that he expected the KSE  
to go down by another 1,000 points or so once the KSE's  
price-level floor is removed, which could happen as early as  
September 9. His analysis concurred with that of Arif Habib,  
President and CEO of one of Karachi's largest brokerage  
firms, who told EconOff on August 29 that he expected the KSE  
to go down by 1000)1200 points once the floor is abandoned.  
Afriди said he expected the market would then rebound as  
investors moved to buy undervalued shares.

Privatization and Other Reforms

¶4. (C) Afridi said that GOP Finance Minister Qamar, who now visits Karachi almost weekly, plans to reenergize the country's privatization program, starting with the sale of state oil and gas concerns (possibly the Oil and Gas Development Corporation) (reftel B). He said the GOP has already engaged financial advisors to plan the divestiture, which is expected to begin by year-end.

¶5. (SBU) Afridi noted the GOP will begin a "National Savings Scheme," which will make 3-, 6-, and 12-month GOP savings certificates available to the public. He believed this move, along with additional privatizations and elimination of oil and electricity subsidies, would help reduce the pressure on the country's dwindling foreign exchange reserves and help the GOP with its stated aim of ceasing borrowing from the State Bank of Pakistan.

¶6. (C) Afridi told us that Qamar had also agreed to address one of the business community's most vociferous complaints ) the lack of economic experts in key GOP positions. According to him, after the September 6 presidential elections, the GOP will begin to appoint qualified economists to influential positions in different ministries.

¶7. (C) Comment: The GOP appears finally to be coming to grips with the gravity of the economic crisis. Moves to build up foreign exchange reserves can help restore investor confidence and could potentially shore up the depreciating rupee. For the GOP, Saudi oil assistance is a key factor in helping Pakistan get back on its feet economically. However,

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as the Ambassador has recently pointed out in high -level meetings with GOP officials, we have not been able to confirm that Saudi funds will be forthcoming, despite the GOP having received positive signs in this regard (reftel C). Pakistan People's Party leader Asif Zardari also told Ambassador he is seeking financial aid from the UAE and Qatar, but this has yet to materialize. The uncertainty about the Saudi rescue package clouds the entire economic picture and needs to be resolved soon, for better or for worse. End Comment.  
Anske